

MESSAGE BY
GOVERNOR KIT BOND
TO THE MISSOURI GENERAL ASSEMBLY
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One year ago Missouri state government faced a financial crisis of unprecedented proportion. My administration inherited a budget which was \$270 million out of balance. When I addressed this Assembly on January 14, 1981, I detailed the magnitude of this problem and the need for immediate executive and legislative actions to curtail this massive over-spending. I pledged at that time to put our financial house back in order and, thanks to the excellent cooperation of the General Assembly and the management steps we have already implemented, today I can report that we are well on our way to accomplishing that goal.

As the first step, last January I ordered that \$63 million be withheld from state department operating budgets. I then placed before you an FY 1982 budget which cut \$360 million from department requests. With your cooperation, a tight budget was enacted.

By June 1981, it had become apparent that the national recession would depress state revenues significantly below the level of our modest appropriations. To keep our budget balanced, I therefore ordered a second round of spending cuts. For FY 1982, I vetoed \$20.6 million in appropriations and withheld an additional \$75 million from state department operating budgets.

We have cut the administration and bureaucracy of government rather than vital human service programs. The results have been dramatic. In the first six months of this year, expenditures have been significantly reduced and the state payroll is 8% lower than a year ago. The size of Missouri government has been shrunk in real and measurable terms. By squeezing down spending, we have reduced the continuing cost of government and the future burden on Missouri taxpayers.

Despite a year of unprecedented budget-cutting and tight-fisted management, the state continues to struggle with a severe cash-flow problem, left over from the fiscal excesses of 1980. The state's payment schedule has been out of phase with its revenue collection schedule for many years. This fact remained disguised so long as the state had a large budget surplus. At one time, the surplus was as much as \$350 million; but it had been liquidated prior to the time I took office. As a result, last fall the cash-flow imbalance became acute. A cash-flow analysis revealed that the state would run out of money in November, February, and March if no further steps were taken. Cash shortages such as these unfairly penalize local schools, colleges and universities, and vendors who supply goods and services to the state.

In October I took two actions to correct this cash-flow crisis. First, I ordered that an additional \$9.2 million be withheld from state department operating budgets. Second, I directed that more than \$100 million in large transfer payments be rescheduled from this fall and winter to next spring.

Strong fiscal management this year has put us on the right track. The crisis, however, is not completely behind us. This session of the General Assembly has an agenda more urgent than any in recent memory. With your help we can rebuild fiscal integrity, and direct new budget investments toward high priority needs, without a tax increase. The FY 1983 Executive Budget is based upon the concept of balance. It is in balance for the year and it incorporates a cash-flow reserve which will permit the state once again to pay its bills in an orderly and timely fashion. It is absolutely essential that we restore the cash-flow reserve to an adequate operating level. Based on a month-by-month analysis of proposed expenditures and expected receipts for FY 1983, I recommend a cash-flow reserve of \$143 million. Prudent stewardship of public money demands no less.

Last year I recommended a "standstill" budget; this year, I propose a restrained budget together with a program of strategic initiatives focussed on economic development, education, criminal justice and vital services for our elderly and our children. Today I will discuss with you proposals which relate directly to the fiscal responsibility which the people of Missouri expect of their state leaders. Next Tuesday, I will set forth the specific proposals which are associated with the strategic initiatives just mentioned.

For FY 1983 I recommend a total state budget of \$4.2 billion from all fund sources, which includes a general revenue fund budget of \$2.3 billion. This general revenue figure is only \$120.8 million more than the amount originally appropriated for the current year; a 5.7% increase. After adjusting for inflation, this budget is \$179.3 million below the spending level for FY 1980.

To meet the challenges of FY 1983, we must take a hard-nosed conservative view of state finances. The health of the Missouri economy is the driving force behind state revenues. The revenue estimates I project assume real growth in the economy beginning no earlier than late spring of 1982. This assumption is more conservative than projections issued by the nation's three major econometric forecasting firms. It is more conservative than the projection of 50 business-sector economists polled by Chase Econometrics in late October. It is more conservative than the consensus estimate issued last week by representatives of the National Bureau of Economic Research, the Congressional Budget Office, the Council of Economic Advisors, and the Brookings Institution. We therefore have every confidence that we can meet, and perhaps exceed, these forecasts.

I have designed the FY 1983 budget on the assumption that general revenues will grow by 8.5% in the current year and by 10.7% in FY 1983. The actual revenue amounts are \$2 billion 58 million in FY 1982 and \$2 billion 278 million in FY 1983. Our revenue projections are squarely in the middle of the range of those projected by our neighboring states. Kansas, for example, projects 8.8% growth in FY 1982 and 11.5 % in FY 1983. Arkansas expects 10% revenue growth in each year. Iowa expects 6.1% and 10%. Illinois projects 4% and 9% in the two years.

The second determinant of state revenues, unlike the national economy, is directly under our control: state fiscal management. I am proposing a fiscal management package composed of emergency measures, a revenue collection plan and a series of welfare reforms aimed at three goals:

- Equipping the state with essential cash-flow tools, to avoid further delays in payments to local schools, colleges and universities;
- Collecting all the taxes owed the state, through an aggressive revenue collections package; and
- Curbing abuse and fraud in welfare programs.

Only by taking these steps can you and I have available the revenues which we believe are essential for education and other vital human service programs.

Within this fiscal management package, four bills stand out and require your attention this month. The first is a law to permit the state to incorporate federal revenue sharing fund balances into the General Revenue Fund. This temporary action will ease the cash-flow problems anticipated during the next six months, especially in February. The bill requires the funds to be segregated again in June. Many states and local governments take this approach to help them meet their cash-flow needs. This amendment to our federal revenue sharing statute is not contrary to any federal law, rule or regulation.

The second emergency measure is required so that local school districts can receive all dollars appropriated to them. Since FY 1972 state law has required that disbursement of state aid to school districts be made in four payments: September 15, December 15, March 15, and May 30. This rigid schedule compounds our present cash-flow problems. A far better approach is to authorize a fifth foundation formula payment. The General Assembly faced a similar problem in 1977 and passed a bill then which had the same effect.

Your prompt enactment of the federal revenue sharing and fifth foundation formula payment bills is critical. Our only alternative, in the event you do not enact these measures this month, will be additional delays -- or perhaps reductions - in foundation formula payments to every school district in the state.

The third emergency bill I propose makes changes in Missouri's AFDC program which are mandated by the 1981 Reconciliation Act passed by Congress. The new federal law will curb the costs of this entitlement program, primarily by restricting eligibility and earned income standards. The purpose of this emergency AFDC bill is to make similar required changes in state eligibility and income standards. If we fail to act promptly, we will assume the costs formerly borne by the federal government. Missouri also would face financial penalties for being out of compliance with federal law. Enactment of this measure before January 31 will, I believe, avoid these costs and penalties, as well as save in excess of \$600,000 in general revenue.

The fourth emergency bill I propose will revise the organization and funding of the state public defender program. House Bill 1169 will bring an end to

the travesty of mandating that court-appointed counsel represent indigents in return for payments which are delayed or sometimes denied altogether. With quick passage, this measure will take effect on April 1, 1982 and can save the state \$700,000 in general revenue.

Beyond these four emergency measures, the next highest priority of our fiscal management agenda is to assure that the state receives all the taxes it is owed. On December 23, I announced a combination of management, budget and legislative actions which together will collect at least \$73.8 million in taxes owed the state and avoid the loss of an additional \$20 million in FY 1983. I already have taken those steps which do not require legislative authorization. I have instructed the Director of Revenue to hire thirty employees to collect delinquent taxes and to accelerate the collection of withholding taxes. The additional receipts from these actions, amounting to \$35.6 million in FY 1982, will be a significant supplement to our basic general revenue forecast. I also have announced steps to boost FY 1983 revenues by \$38.2 million. One-third of that amount, \$13.5 million, represents delinquent taxes which will be collected by twenty-two employees supported by funds reallocated from within the Department of Revenue. The remaining \$24.7 million can be collected by 83 new employees for which I urge you to appropriate \$1.3 million. The Department of Revenue has my charge to collect all taxes owed. It is an insult to every hardworking Missourian who pays taxes on time each year whenever anyone is allowed to get by without paying his or her fair share. I ask your support for this effort to attack the large backlog of uncollected taxes which has accumulated over the years.

I also propose you enact five pieces of legislation to strengthen our revenue collection system. Most important among these is the proposal to "decouple" Missouri corporate depreciation schedules from the greatly liberalized depreciation schedules adopted by Congress last August. Without this action, the estimated loss of \$35 million in FY 1983 will mushroom to \$51 million in FY 1984 and to \$87 million in FY 1985. Failure to decouple will lead to a serious weakening of our existing revenue base and a substantial shift of the overall tax burden from corporations to individuals. My proposal would become effective for corporate tax years commencing after the bill's effective date and will not apply to "subchapter S" corporations, partnerships or sole proprietorships. This proposal will retain at least \$20 million in general revenue for FY 1983.

The second legislative proposal in my revenue collection package would statutorily establish the Special Investigation Bureau in the Department of Revenue. This bill would insulate the bureau from the political pressures which have hamstrung it in the past and give it permanent statutory authorization.

My third proposal is aimed at the subtle form of revenue erosion which occurs when individuals and firms deliberately delay tax payments because the Department of Revenue by statute can charge only 6% interest on delinquent taxes. The current rate actually encourages delinquency by giving taxpayers a borrowing rate far lower than they could obtain from any financial institution. My proposal would tie the Missouri interest rate on delinquent taxes to that of the federal Internal Revenue Service.

In addition to these legislative proposals, it is important for you to exercise restraint in another area affecting the Department of Revenue. Over the years, the General Assembly has given many new responsibilities to the Department without providing corresponding funds for staff and equipment. The breaking point in our collection system may not be far away. For that reason, I urgently request that you not adopt any legislation placing additional burdens on the Department of Revenue without providing adequate funding. No matter how well intentioned such a measure may be, I will be forced to veto any legislation which does not provide adequate funds for any new responsibility given to the Department of Revenue.

A final element remains in our legislative efforts to reform the revenue collection process -- removing the Department from political abuse. I am once again submitting to you a reorganization order placing the Department of Revenue under the state Merit System. I consider this measure an integral part of my fiscal management package.

Turning now to the administration of justice in Missouri, my administration, legislators and the judiciary have jointly developed a measure, Senate Bill 497, which modernizes the fees charged to users of the court system and adds \$4.3 million to state general revenue for FY 1983. These new revenues will support juvenile detention facilities and other judicial initiatives at the local level, as well as provide for increased administrative costs in the state court system. I ask your support for this measure.

This concept of realistic user fees should be applied to other state services and programs as well. Following a thorough appraisal by the Department of

Natural Resources, I have approved higher fees for park users to help preserve the excellence of our State Park System. We need your legislative authorization so that these additional fee revenues can underwrite \$2.3 million of operating costs for the Division of Parks and Historic Preservation and permit the opening of seven new historic sites, including the Thomas Hart Benton home in Kansas City.

Curbing abuse and fraud in our welfare system is the third essential component of my fiscal management package. Earlier in this message I explained the urgency of legislation which will bring Missouri into compliance with recent federal revisions in the AFDC program. Two additional changes are critical parts of our effort to accomplish these reforms.

First, we need additional statutory authority to collect support payments from parents who walk away from their obligation to support their children. When these parents refuse to support their children, they shift their personal responsibility to the state welfare program and thus to the taxpayers of Missouri. The Omnibus Child Support Bill of 1982 will make it easier for the state to garnish the wages of those parents who shirk this vital responsibility. This and other provisions of the bill will recover nearly \$1.9 million in general revenue in FY 1983.

I next propose a set of statutory reforms in our Medicaid and General Relief programs to complete the work you helped us begin with the passage of House Bill 894 and House Bill 901 last session. As a result of our mutual efforts, the Medicaid program has stayed within its appropriation and will require no supplemental appropriation this year. The credit for this milestone can rightly be shared by the General Assembly and the Executive Branch.

Nevertheless, the Medicaid program continues to grow at a rate beyond the level required by legitimate client needs. Therefore, I propose a second set of reforms which will give the Department of Social Services new authority to control providers and clients who abuse the program, to recover overpayments to providers, and to insert private-market incentives into the Medicaid nursing home service. In the General Relief program, corrective language is needed to eliminate eligibility for persons who live with employable relatives.

These changes in our Medicaid and General Relief programs will produce an estimated \$2.6 million in general revenue savings in FY 1983. They will achieve additional indirect savings as they deter further fraud and abuse. Together with a strengthened child support enforcement program, these reforms will allow additional managerial control over programs that for years have threatened to escape control. They will do so, let me emphasize, without jeopardizing the well-being of any Missourian in legitimate need of state assistance.

One additional bill belongs in the "must-pass" category of legislation: An act to return the state unemployment trust fund to solvency. The trust fund began borrowing from the federal government in December and may ultimately have to borrow as much as \$100 million. We have a duty to the working people of Missouri and their employers which can only be fulfilled by your prompt passage of a fair and equitable reform bill.

The fiscal measures I have presented today will balance the Missouri budget, and will allow additional funding for vitally important human services,

without a tax increase. For example:

-For elementary and secondary education, my highest priority, I recommend that general revenue support for the School Foundation Formula be increased by \$30 million, bringing the total to more than \$733 million.

-For higher education, our investment in tomorrow's human capital, I recommend a \$29.5 million increase in general revenue for our state colleges and universities. This increase restores these important institutions to the appropriation level they received prior to the FY 1982 withholdings. I also recommend building into the core appropriation for junior and community colleges a \$6.3 million supplemental appropriation for FY 1982. I further recommend an increase of \$2.3 million for FY 1983 to recognize significant growth in enrollment.

-Soil conservation is essential to our agricultural productivity and to the entire Missouri economy. The Department of Natural Resources reports that nearly one-half of Missouri's vital topsoil has been lost to erosion. I therefore recommend \$1 million in general revenue to begin the cost-share program for soil conservation which you authorized in 1980. These funds will be targeted to control erosion on about 170,000 acres of our most endangered farmland.

-For Ellis Fischel State Cancer Hospital, I recommend your approval of legislation, developed after a two-year study by the Division of Health,

the Cancer Research Center, and nationally recognized experts, which will maintain state support, only for FY 1983 and FY 1984, while the hospital develops and implements its plans to become a self-supporting center for innovative research and therapy.

-Federal funding for the Division of Alcohol and Drug Abuse in the Department of Mental Health has been severely cut. To restore vitally needed treatment and counseling services, I recommend an additional \$2 million in general revenue.

-For the newly-created Department of Corrections and Human Resources, I recommend that an additional \$921,000 be appropriated to the halfway house program to provide 101 new beds for our corrections system. I also recommend an increase of \$1 million to offset the impact of inflation on food, fuel, and utilities in the state's correctional institutions.

-For the Department of Public Safety, I recommend \$2 million for the state share of a total construction budget of \$6.1 million for a 150-bed veteran's nursing home, as recommended in a recent feasibility study and supported by Congress.

One of the most regrettable things I had to do last year, in our efforts to balance the budget, was deny salary increases to state employees. For FY 1983 I recommend a pay plan which gives each employee \$500 plus a 3% cost-of-living increase. This recommendation will provide an 8% increase for employees at the \$10,000 salary level. The \$28.5 million cost of this plan is the most we can afford while still funding essential public priorities.

This past year has been challenging. The experience convinces me that firm leadership and creative management are the keys to rebuilding a government which meets the needs of our citizens and still lives within its means. We have confronted repeated threats to fiscal stability and have conquered them. As a result, Missouri state government today is a leaner and more productive enterprise.

It is clear, however, that our job is not done. I have outlined today a program which will resolve our cash-flow problems, strengthen our revenue collection system and put controls on our welfare programs. But the FY 1983 budget is also capable of supporting selected initiatives--"targeted investments," if you will--with no tax increases.

The ability of our people to pay higher taxes should be of paramount concern to those who propose tax increases. Over the past few years, high inflation and unemployment have taken their toll on our citizens' ability to meet their own needs, much less those of state government. Unemployment, once only a distant fear in Missouri, is now a harsh reality for many of our families. Per capita personal income in Missouri, after adjusting for inflation, actually dropped by 5.5% between 1979 and 1981.

When Missouri families have been forced to cut back on their own needs, they want better government, not bigger government. Shall we now ask them to pay more of their shrinking income to support state government? I think not.

Economic development and the creation of jobs are key priorities of my administration. Next week I will present a package of economic development initiatives which will strengthen our economy through a partnership with the private sector. The surest road to state financial health lies not in more taxes, but in economic recovery, which will benefit citizens first, and state government second.